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19 CHAIRPERSON JAMES:

20 Ms. Paul.

21 MS. PAUL: Well, good morning, Commissioner

22 James, members of the Commission, distinguished

23 guests. Contrary to what I told you yesterday, my

24 name is really Rebecca O'Paul--

1 (Laughter)

2 MS. PAUL: --and I am still the President
3 of the Georgia Lottery Corporation and the President of
4 the North American Association of State and Provincial
5 Lotteries.

6 You've asked me to address the question
7 today of how lotteries operate. Each lottery is very,
8 very unique in its own way. Based upon the decisions
9 made by its own state legislature, each legislature
10 takes a different approach deciding the scale of
11 operations, the allocating of revenues, the
12 establishing of mechanisms for oversight, et cetera, et
13 cetera, et cetera. I can offer my experiences based on
14 being the chief executive officer of Illinois, Florida
15 and Georgia.

16 However, before I start, I want to remind
17 you no lottery is now more alike than are Boston Red
18 Sox and the Atlanta Braves. I should throw out that
19 the Braves play real baseball but we won't go there.
20 There are lotteries in states with less than a million
21 people. There are lotteries in states with tens of
22 millions of people. There are lotteries that are 30
23 years old. There are lotteries that have yet to

1 celebrate their fifth anniversary. They are very
2 different for many, many reasons.

3 It's safe, however, that the newer
4 lotteries have really learned lessons from their
5 predecessors. And as we talked about yesterday, some
6 of those lessons can be seen in things like Georgia's
7 HOPE Scholarships. The three lotteries that I ran took
8 three very different approaches in how their
9 legislature set them up. So, what I'd like to do today
10 is just address those three approaches with the three
11 lotteries that I have the most experience with.

12 The Illinois lottery began in 1974 and like
13 many of the older lotteries, when it began, it was a
14 division of another agency of state government. In
15 Illinois' case, it was the Department of Revenue. Our
16 budgets were line-item appropriated as a part of the
17 Department of Revenue's budgets. Our employees were,
18 for the most part, members of the state union and bid
19 on jobs with other revenue employees. Security was
20 directed by the Department of Revenue. Our sales
21 representatives were mostly former tax collectors. Our
22 internal audits were performed by revenue's auditors.
23 Our security was done by revenue's security team.

1 Our players claimed larger prizes at one of
2 our many offices, but had to wait four to six weeks for
3 checks to arrive after being processed by the state
4 treasurer. All employees were part of the state merit
5 system, the state retirement system, as well as the
6 state health care plan. As superintendent of the
7 lottery, my boss was the director of the Department of
8 Revenue.

9 In Florida, which began operations in 1988,
10 the legislature took a very different approach. We
11 were a free-standing state agency, the Department of
12 the Lottery. I worked directly for the governor and my
13 title was secretary of the lottery, much like the
14 secretary of transportation. We set up our own
15 security force. We set up our own internal audit
16 department. We had our own legal staff.

17 We still had our budgets line-item
18 appropriated by the legislature every year, and we
19 still had oversight committees in both houses of the
20 legislature, but our employees were not state merit
21 system employees and we could, as an example, pay
22 winners directly upon the receipt of a valid claim.

23 Georgia, which began in 1993, took yet a
24 third approach. The legislature structured us as a

1 public corporation. All of our profits still certainly
2 go to the public good. The programs I discussed
3 yesterday, Georgia's HOPE Scholarship program, pre-
4 kindergarten programs and computer technology for
5 elementary and secondary schools.

6 My title is President of the Georgia
7 Lottery Corporation, but I report to a seven member
8 citizen board. They come from all over Georgia.
9 They're very respected members of their communities and
10 in fact, some of them even voted against the lottery.
11 The board is appointed by the governor and confirmed by
12 the Senate. We still have oversight committees in both
13 Houses of our legislature. We're still subject to
14 state audits. We're still subject to all open records
15 and all open meeting laws of our states, but we're not
16 line-item appropriated.

17 We have very broad guidelines in our law
18 which mandates what percentages of sales must go to
19 players, what percentages of sales must go to
20 education, what percentages of sales must go to
21 retailers, but it is the board's duty as citizen, non-
22 paid advisors, to maximize revenues for education
23 within those very broad guidelines.

1 Now, while as I continue to stress every
2 lottery is different, there are some similarities in
3 the three lotteries that I ran, and I'd like to talk
4 just briefly about those similarities. In those three
5 states, approximately 50 to 55 percent of each lottery
6 dollar goes back to the players in the form of prizes,
7 35 to 40 percent of each lottery dollar goes to the
8 public programs funded by their particular legislature
9 and six to seven percent goes to the retailers who sell
10 their products and in all three states, operating
11 expenses are less than seven percent.

12 In all three states, much like you heard
13 from Sam DePhillippo this morning, when a player claims
14 a prize over \$5,000, there is a check done before a
15 payment is made to any winner to see if that player
16 owes back child support, and if they do, that amount is
17 subtracted from their winnings.

18 In all three states, the security of the
19 drawings, the systems, the tickets is quite elaborate.
20 Credibility is vital to any lottery success. If a
21 player is not absolutely certain they have the same
22 chance of winning as any other player, they have no
23 reason to play.

1 To reinforce that point, let me just give
2 you an example of the drawing process that happens in
3 all three of those states. While the televised drawing
4 you might see lasts approximately 60 seconds, the
5 actual drawing procedure lasts several hours. In
6 Illinois, two independent audit firms are available or
7 are present for the whole process. In Florida and
8 Georgia, an outside independent auditor, as well as the
9 lottery security staff, is present for the entire
10 process.

11 There is actually a lottery held to
12 determine which ball sets and which machines will be
13 used before any drawing is held. Then there are
14 several pre-tests to ensure the randomness of the balls
15 and machines that have been chosen for that night's
16 drawing. Then you actually hold the drawing. Then you
17 have several post-tests to again assure the randomness
18 of the actual official number before that number
19 becomes certified by the outside independent auditors.
20 All three states have both their ball sets and their
21 machines tested on a regular basis by their state
22 police organizations.

23 Every terminal at every retail location is
24 connected to a central site through dedicated phone

1 lines so that at no time can anyone tap into the system
2 and manipulate any data. It's my understanding that
3 all three states have more dedicated phone lines than
4 does the Pentagon.

5 When instant tickets are printed, security
6 staffs test all processes to ensure the security of
7 that product and in fact, the North American
8 Association of State and Provincial lotteries has a
9 separate security committee made up of the security
10 directors of all of the lotteries who work together to
11 develop those practices and in fact, are working right
12 now to develop standards for all of our systems.

13 There are other lottery directors today who
14 are talking about how their lotteries operate and the
15 guidelines under which they operate, but no matter how
16 they operate, there are some things that every single
17 lottery has in common. Every single lottery is
18 responsible to the people of its state. Every lottery
19 is audited by internal auditors, external public
20 accounting firms and by their own state auditors.
21 Every lottery mandates that each employee pass a
22 criminal background check before they can begin
23 employment. Every lottery is subject to the state's
24 open meeting laws and all of our records are available

1 for public scrutiny. Every lottery is subject to the
2 oversight by the men and women elected to serve the
3 public, and it is their job to see to it that lotteries
4 operate in a socially responsible way. But most
5 importantly, every lottery raises dollars for very
6 important public programs.

7 Thank you.

8 CHAIRPERSON JAMES: Thank you.